INTERTEMPORAL DOUBLE COUNT THAT WILL OCCUR ABSENT AN ANNUAL DOWNWARD EXOGENOUS COST ADJUSTMENT MECHANISM

Utilizing demographic data and projected OPEB expense on AT&T's current retiree population, the attached table numerically illustrates how, over time, any OPEB exogenous treatment given to the LECs based on the current filing will result in an intertemporal double count, absent an annual downward exogenous cost adjustment mechanism. In Year 1, the LECs seek an exogenous cost increase (column D) for the difference between pay-as-you-go claims expense (column A) and the SFAS 106 TBO expense (column B). The table indicates that the difference (column C) between the pay-as-you-go claims expense and the SFAS 106 TBO expense is greatest in Year 1 and significantly narrows over time. This is because pay-as-you-go claims, which are already reflected in LEC rates, generally decline over time as the pool of existing retirees dwindles and retirees become Medicare eligible upon reaching age 65.[1]

It is this significant and continual decline in pay-as-you-go claims over time that the LECs have not addressed in any of their proposals to remedy the intertemporal double count.[2] This narrowing over time indicates that it is

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[1] This same relationship (i.e., the narrowing of the difference between pay-as-you-go and the SFAS 106 TBO expense) would hold even if currently active employees were also included in the OPEB TBO expense accrual. Because currently active employees tend to be younger than those already retired, it would simply take longer for the pay-as-you-go and the SFAS 106 TBO expense amounts to become equal, because the process is not completed until the last person included in the TBO accrual dies.

[2] GTE (p. 19), NYNEX (p. 23), and SWBT (p. 23) suggest that the "GNP-PI minus productivity" impact on the annual amortized TBO

(footnote continued on next page)

unacceptable from an actuarial perspective to assume that costs determined at the beginning of a 15-year period (the time over which the TBO is amortized in the table) is appropriate for the entire period. It is this trend that creates the need for an annual exogenous cost reduction each year (column E) subsequent to Year 1, if an initial exogenous cost increase were to be granted. The absence of this annual downward exogenous cost adjustment would permit the LECs to recover well in excess of the projected SFAS 106 expense, because there is absolutely no difference whatsoever between the pay-as-you-go expense and the SFAS 106 TBO expense over the next 30+ years. Consequently, because the existing price cap mechanism allows for full recovery of OPEB expenses, there is no need for any exogenous cost treatment.

(footnote continued from previous page)

amount be subtracted each year from the PCI change because the TBO amount is fixed. All this adjustment would accomplish is to eliminate further growth of the SFAS 106 TBO expense (i.e., the column D figure). The fundamental issue, however, is the measurement of the difference between pay-as-you-go claims (already in rates) and the SFAS 106 TBO expense. The adjustment proposed by the LECs does not in any way adjust for the intertemporal double count; it simply prevents the double count from becoming even larger through inflationary growth of the SFAS 106 TBO accrual. SWBT (Appendix G) further suggests that SFAS 106 gains and losses, which include both productivity gains and changes in actuarial assumptions, would be flowed through as exogenous cost changes in the future. Again, SWBT's proposal does not adjust for the intertemporal double count, because its recommendation only addresses changes in the TBO, not the difference between pay-as-you-go claims and the SFAS 106 TBO expense over time.

Intertemporal Double Count Illustration

Year	A Claims Expense	B SFAS 106 TBO Expense	C Annual Difference	D LEC Desired Treatment	E Net Change Exogenous Amount
1	585	993	408	408	---
2	627	987	360	408	(48)
3	643	977	334	408	(74)
4	637	967	330	408	(78)
5	640	955	315	408	(93)
6	638	943	305	408	(103)
7	630	931	301	408	(107)
8	620	918	298	408	(110)
9	610	904	294	408	(114)
10	598	891	293	408	(115)
11	585	878	293	408	(115)
12	573	864	291	408	(117)
13	562	851	289	408	(119)
14	552	837	285	408	(123)
15	541	823	282	408	(126)
Years 1-15 Total	9,041	13,719	4,678	6,120	(1,442)
16	529	331	(198)	---	(198)
17	518	316	(202)	---	(202)
18	508	302	(206)	---	(206)
19	497	287	(210)	---	(210)
20	485	271	(214)	---	(214)
21	472	256	(216)	---	(216)
22	457	240	(217)	---	(217)
23	442	224	(218)	---	(218)
24	425	209	(216)	---	(216)
25	407	193	(214)	---	(214)
26	389	178	(211)	---	(211)
27	369	163	(206)	---	(206)
28	349	148	(201)	---	(201)
29	327	134	(193)	---	(193)
30	305	120	(185)	---	(185)
30+	2,262	691	(1,571)	---	(1,571)
Years 15-30+ Total	8,741	4,063	(4,678)	---	(4,678)
Years 1-30+ Total	17,782	17,782	0	6,120	(6,120)

PRICE CAP LECS THAT FILED FOR SHARING ADJUSTMENTS IN THEIR 4/2/93 INTERSTATE ACCESS FILINGS

	Earnings Level
Ameritech`	12.79%
Bell Atlantic	12.48%
BellSouth	13.03%
NYNEX	12.30%
Pacific Bell	12.91%
Nevada Bell	15.53%
Contel of Pennsylvania	18.59%
Contel of the West	12.29%
GTE Alaska	14.84%
GTE North - Indiana	13.89%
GTE North - IA & MN	15.46%
GTE North - Michigan	14.49%
GTE North - Missouri	13.87%
GTE North - Nebraska	13.61%
GTE North - Ohio	13.41%
GTE North - Pennsylvania	12.44%
GTE North - Wisconsin	12.55%
GTE of NW - ID & MT	17.35%
GTE of the South	12.70%
United Tel - Indiana	15.23%
United of the Midwest	15.05%
United of the NW	17.77%
United Tel - Ohio	14.12%
United Eastern Group	12.32%
United Southeast Group	13.57%
Vista Tel - IA & MN	13.65%

**AT&T CALCULATION OF U S WEST
DEM RELATED EXOGENOUS COSTS
($000)**

1.	U S WEST 1992 Local Switching Investments	4,217,408
2.	Change in U S WEST Composite DEM Ratio For 1992/1993	-0.004412
3.	Change In U S WEST Local Switching Investments Assigned Interstate	-18,607
4.	U S WEST Overhead Loading Factor	1.23
5.	Change In U S WEST Total Interstate Investments	-22,842
6.	U S WEST Interstate Carrying Charge Factor	0.25
7.	Expected DEM Related Exogenous Cost Change	-(5,667)

SOURCE: U S WEST 1992 ARMIS Report 43-04.

LECS WHO ARE NECA CCL POOL PARTICIPANTS ONLY AND WHO HAVE FAILED TO FILE T/S REDUCTIONS

	LEC	State
1	Ayershire	IA
2	Bloomingdale	IN
3	Cass County	IL
4	Chickamauga	GA
5	Citizens - MO	MO
6	City of Brookings	SD
7	Coastal Utilities	GA
8	Dubois	WY
9	East Ascension	LA
10	El Paso	IL
11	Farmers Tel	SC
12	Gridley	IL
13	Hargray	SC
14	Horry	SC
15	Leaf River	IL
16	Merchants and Farmers	IN
17	Millington	TN
18	Mt. Horeb	WI
19	Northwest	IA
20	Northwest	IN
21	Odin	IL
22	Pineland	GA
23	Sierra	CA
24	Southeast	WI
25	Union	WY
26	Webb-Dickens	IA

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 24th day of August, 1993, a copy of the foregoing "AT&T Opposition to Direct Cases" was mailed by U.S. first class mail, postage prepaid, to the parties listed on the attached list.

Ann Marie Abrahamson

Ann Marie Abrahamson

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